



Sunway Berhad

Strong Unbilled Sales & Order Book Drive Future Profit

TP: RM4.58

(ex-Rights: RM3.86) (+18.0%)

Last Traded: RM3.88

(ex Rights: RM3.34)

BUY

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Review

- Sunway Berhad's 1Q13 core net profit (excluding gain on derivatives) was within expectations, which accounted for 25% and 24% of our and consensus full-year forecasts.
- YoY, Sunway's 1Q13 core net profit jumped 41% to RM90.3mn driven by higher revenue (+25% YoY) as well as margin improvement (net margin improved 1.0ppt YoY) due to better product mix. The three core operating divisions, which are property development, property investment and construction divisions, showed strong YoY revenue growth of 27%/2%/66% respectively and have contributed to the improved performance.
- QoQ, core net profit fell 12% mainly due to low progress billing given the short working month during 1Q. Property investment division also reported weaker results mainly due to seasonal factors as the leisure and hospitality business generated their peak earnings in the 4Q.

Impact

- No change to our FY13-15 earnings estimates.

Outlook

- Sunway recorded new sales of RM238mn (effective RM202mn) in 1Q13, representing a decent growth of 20% YoY. The encouraging sales in 1Q13 came mainly from on-going project such as South Quay @ Bandar Sunway and Sunway Velocity. Unbilled sales remains healthy at RM2.3bn (effective RM1.9bn), which will keep the group busy over the next two years.
- On the construction front, Sunway has bagged 1) Legoland Water Park worth RM45mn, 2) Bus Rapid Transit – Sunway Line worth RM452mn, 3) KLCC North East Car park worth RM304mn, and 4) KLCC package 2 worth RM222mn. These jobs have boosted its order book to RM3.4bn (excluding in-house works) – see **Table 1**. Of this, we expect MRT and LRT works to run in full swing.
- With total 1,858 acres of undeveloped landbank within the Iskandar region, Sunway is one of the largest land-owner in Johor. We are positive on Sunway's land acquisitions spree in the Iskandar region recently given it is poised to be the main growth area for Malaysia. These lands are expected to yield a combined GDV of RM30bn with a development period of over 17 years. Sunway Construction arms will also stand to benefit from these projects as it is likely be awarded civil works packages.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1292.5
Market Cap (RMmn)	5014.9
Par Value	1.00
52-wk Hi/Lo (RM)	4.08/2.17
12-mth Avg Daily Vol ('000 shrs)	921.8
Estimated Free Float (%)	32.9
Beta	1.60

Major Shareholders (%)

Sungei Way Corp (42.5)

Forecast Revision

	FY13	FY14
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	364.7	438.1
Consensus	381.0	436.1
TA's / Consensus (%)	95.7	100.5
Previous Rating	Sell (Upgraded)	

Financial Indicators

	FY13	FY14
Net Debt / Equity (%)	38.2	11.5
FCPS (sen)	16.7	6.4
Price / CFPS (x)	23.2	61.0
ROA (%)	4.1	4.4
NTA/Share (RM)	2.7	2.6
Price/NTA (x)	1.4	1.5

SCORECARD

	% of FY	
vs TA	25.0	Within
vs Consensus	24.0	Within

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	33.8	3.3
3 mth	55.8	8.4
6 mth	68.7	10.2
12 mth	70.9	12.3

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

- Our SOP-derived target price was revised higher to RM4.58/share (ex-rights TP: RM3.86/share) to reflect the change in total GDV assumptions and a revised target price of RM1.80 (from RM1.73) for Sunway REIT. Our target price implies a CY14 PER of 16x. We upgrade Sunway to **Buy** premised on 1) clear earnings visibility underpinned by strong unbilled sales and order book; 2) its large presence in Iskandar Malaysia should continue draw investors' interest; and 3) the group's construction expertise should benefit from domestic infrastructure boom with various mega infrastructure works in the pipeline.

Table 1: Order book

Project	RM'mn
Local	
MRT Package V4	1117
LRT Kelana Jaya Line Extension	336
BRT Sunway Line	452
Pinewood Studios	122
UiTM campus expansion	57
Precinct 1, Putrajaya	6
BioXcell - Central Facilities Utility	24
Legoland Water Park	41
KLCC NEC	304
KLCC Package 2	222
Others	268
Foreign	
Singapore - precast	466
Total	3415
Other in-house jobs	
Sunway Velocity Mall (Substructure)	208
Sunway Velocity Phase 2 (Substructure)	93
Sunway Velocity (Shop offices & Apartment)	113
The Pinnacle (Superstructure)	123
Sunway University New Academic Block	192
Sunway Putra Place	258

Source: Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2011	2012	2013F	2014F	2015F
Revenue	3691.7	3876.8	3851.2	4306.8	4554.1
EBITDA	454.0	583.3	551.8	641.2	693.5
EBITDA margin (%)	12.3	15.0	14.3	14.9	15.2
Pretax profit	443.9	519.8	503.0	603.5	658.0
Net profit	369.7	532.3	364.7	438.1	481.1
Net profit -adj	325.6	323.9	364.7	438.1	481.1
EPS (sen)	28.6	41.2	28.2	24.2	26.6
EPS - adj (sen)*	18.0	17.9	20.2	24.2	26.6
EPS Growth (Core) (%)	0.8	(0.5)	12.6	20.1	9.8
PER (x) #	18.5	18.6	16.5	13.8	12.5
GDPS (sen)	0.0	6.0	6.0	6.0	6.0
Div Yield (%)	0.0	4.3	4.3	6.0	6.0
EV/EBITDA (x)	0.0	1.3	1.3	1.8	1.8
ROE (%)	11.6	9.9	9.9	9.8	9.2

* Adjusted for 1:3 Rights Issue proposed in 2013

Based on ex-right price

1Q13 Results analysis

YE 31 Dec (RM'mn)	1Q12	4Q12	1Q13	QOQ%	YOY%	
Revenue	814.8	1198.9	1021.0	(14.8)	25.3	
EBIT	60.4	233.5	86.1	(63.1)	42.5	
Gain on derivative	0.2	0.3	0.3	(8.2)	3.2	
Finance income	5.5	4.1	10.5	156.0	90.0	
Finance costs	(24.1)	(20.8)	(22.2)	6.4	(8.1)	
Associates	18.9	21.5	18.7	(13.0)	(0.9)	
JV	24.0	77.8	29.2	(62.5)	21.7	
EI	(0.2)	123.8	(0.3)	(100.2)	3.2	
PBT	84.9	316.3	122.5	(61.3)	44.3	
Core PBT	85.1	192.5	122.8	(36.2)	44.2	
Tax	(18.5)	(55.8)	(26.3)	(52.8)	42.4	
MI	(2.0)	(41.2)	(5.6)	(86.3)	188.3	
Net profit	64.4	219.3	90.6	(58.7)	40.5	
Core net profit	64.2	102.6	90.3	(12.0)	40.7	
Reported EPS	(sen)	5.0	17.0	7.0	(58.7)	40.5
Adj EPS	(sen)	5.0	7.9	7.0	(12.0)	40.6
DPS	(sen)	0.0	6.0	0.0	nm	nm
EBIT margin	(%)	7.4	19.5	8.4	(11.0)	1.0
PBT margin	(%)	10.5	16.1	12.0	(4.0)	1.6
Net margin	(%)	7.9	8.6	8.8	0.3	1.0
Effective tax rate	(%)	21.8	17.6	21.5	3.9	(0.3)

Table 2: SOP Valuation

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Selangor/KL				
Sunway Damansara	60%	9.2	1014.8	96.8
Sunway South Quay	60%	31.2	2393.8	169.4
Sunway Monterez	60%	3.2	26.2	2.4
Sunway Semenyih	70%	278.7	510.0	31.8
Sunway Cheras	100%	6.0	16.8	1.6
Sunway Duta	60%	1.9	72.0	5.0
Sunway Montana	100%	2.0	55.5	3.9
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	41.1
Casa Kiara III	80%	2.3	168.0	15.5
Sunway Velocity	85%	15.2	2430.1	188.9
Sunway Tower KL 1	100%	1.0	240.0	22.2
Bangi	100%	3.0	59.0	5.6
Melawati	100%	2.0	43.0	4.1
Sg Long	80%	88.8	221.6	21.0
Mont Putra, Rawang	100%	163.0	156.0	14.8
Perak				
Sunway City Ipoh	65%	581.6	681.4	38.6
Penang				
Sunway City Penang	100%	15.9	171.7	16.3
Sunway Grand	100%	11.9	186.0	17.6
Sungai Ara	100%	56.1	849.2	80.5
Bukit Mertajam	100%	42.3	694.1	65.8
S'pore				
Novena	30%	0.5	672.5	67.5
Sembawang, Singapore	100%	0.8	75.0	8.0
Johor				
Bukit Lenang	80%	70.4	745.6	46.5
Medini	38%	262.6	4560.0	321.5
Pendas	60%	647.4	10800.0	761.5
China				
Sunway Guanghao	65%	2.4	43.4	3.0
Tianjin Eco City	60%	54.5	3206.3	122.2
India				
Sunway OPUS Grand India	50%	11.9	351.2	20.5
Sunway MAK Signature Residence	60%	8.4	108.7	6.7
Australia				
Wonderland Business Park (Sydney)	45%	21.8	170.1	10.5
Total		2411.5	31394.3	2211.5
Current unbilled sales			1900	256.5
Sub-total				2468.0

Construction	Effective stake (%)	Balance of works (RM'mn)	NPV
Pinewood Studios	100.00	122.00	7.20
Kelana Line - Package B	100.00	336.00	19.15
Bio-Xcell - Central facilities utility	100.00	24.00	1.36
UiTM campus expansion & KLCC link bridge	100.00	57.00	3.31
3-star Hotel & Office tower@ Precinct 1	100.00	6.00	0.39
Singapore - Precast	100.00	466.00	13.51
KVMRT - V4 Section 17	100.00	1117.00	39.10
Legoland Water Park	100.00	41.00	2.42
BRT Sunway Line	100.00	452.00	-55.00
KLCC NEC	100.00	304.00	17.94
KLCC Package 2	100.00	222.00	13.10
Other	100.00	268.00	8.31
Sub-total			70.78

	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
Investment in Sunway REIT (less 20% holding company discount)	34.30	1048.08	1793.73	596.5
Total surplus				3135.3
Total NTA				3239.7
Total revised enterprised value				6375.0
Conversion of warrants @ RM2.80				723.8
SOP valuation				7098.8
Fully Diluted Share Base (mil shares)				1551.0
Fair Value - cum Rights (RM/share)				4.58
Proceeds of rights @ RM1.70				878.9
SOP Valuation				7977.7
Enlarged share cap post rights issue (mil shares)				2068.0
Fair value - ex Rights (RM/share)				3.86

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